

VZCZCXYZ0016  
PP RUEHWEB

DE RUEHKKH #0902/01 1581656  
ZNR UUUUU ZZH  
P 071656Z JUN 07  
FM AMEMBASSY KHARTOUM  
TO SECSTATE WASHDC PRIORITY 7521

UNCLAS KHARTOUM 000902

SIPDIS

DEPT FOR AF/SPG, AF/EPS, EB/IFD, AND EB/ESC  
DEPT PLS PASS USAID FOR AFR, AND ALSO PASS USAID

SIPDIS  
SENSITIVE

E.O. 12958: N/A  
TAGS: [PREL](#) [PGOV](#) [EFIN](#) [ECON](#) [EAID](#) [KHDP](#) [SU](#)

SUBJECT: REACTING TO THE SANCTIONS - SUDANESE GOVERNMENT SELLS  
SHARES OF SUDATEL AND IMPOSES NEW RESTRICTIONS ON FOREIGN CURRENCY  
TRANSACTIONS

¶1. (U) SUMMARY: As the Sudanese Government of National Unity (GNU) issued a decree decrying the latest U.S. sanctions, newspaper reports, government announcements, and interviews with businessmen have revealed that the GNU has already taken a number of defensive economic measures. Within a week of the May 29 announcement of tightening U.S. economic sanctions, the GNU began selling its shares in Sudatel and instituted new restrictions on foreign currency transactions. While the GNU states that these actions are not related to U.S. sanctions, their timing and economic impact indicates the contrary. END SUMMARY.

¶2. (U) On June 6 and 7, the Sudanese National Assembly held a special session discussing the latest U.S. sanctions in Sudan. On the first day of discussions, Foreign Minister Lam Akol delivered a harsh critique of U.S. sanctions, and the following day the National Assembly voted to issue a parliamentary decree rejecting the sanctions. Earlier in Washington, the Sudanese Ambassador to the U.S. threatened reciprocal measures for Coca-Cola, claiming Sudan could stop supplying gum Arabic, a necessary ingredient to the soft drink and a natural resource which Sudan controls 80% of the world's supply. While the parliament issues edicts and discussion continues, the two actions described below, may provide a more practical indication of how the GNU is reacting to U.S. sanctions.

-----  
SELLING SHARES OF SUDATEL  
-----

¶3. (U) One day following the announcement of tightened U.S. sanctions on Sudan, the Sudanese Arabic daily newspaper "As-Soudani" reported that the GoS is planning to sell its remaining shares of Sudatel. Sudatel is one of thirty companies specifically designated in the U.S. sanctions announcement. The article reports that the GNU will sell its remaining shares of Sudatel which stand at 24% of all shares in the company, after it already sold 2%. The value of the transaction was estimated to be 33 million dollars or the equivalent of 15 million shares. The article revealed that this transaction took place after the usual operational hours of the Sudanese exchange. As an unnamed investor from the United Arab Emirates purchased the government's shares, the article cited complaints that the government should have made its shares available to Sudanese investors.

¶4. (U) On June 4 former Sudanese Finance Minister, Abdul Rahim Hamdi, commented on the relationship between the U.S. sanctions and Sudatel. In a Sudan Tribune article, Hamdi is quoted as saying "For now, the only Sudanese company that truly risks being affected by the US measures, is Sudatel, Sudan's largest cell phone provider, because it is listed on the stock exchange in the United Arab Emirates and is largely owned by foreign investors."

-----

¶5. (U) Also on May 29, in an action widely understood as a measure designed to prevent capital flight, the Central Bank of Sudan's Foreign Exchange Administration announced an amendment to its foreign accounts regulations. Effective immediately, the decree prevents Sudanese citizens from buying foreign currencies from money exchanges for imports or for personal accounts in Sudan. Depositing in both old and new foreign accounts is banned by the following methods: cash deposit; buying from foreign exchange offices or banks either in cash or checks; transfers issued from private accounts, with some limited exceptions. The amendment also changes the regulations on import purchases with a letter of credit and through deferred payments.

¶6. (U) The English daily newspaper "Sudan Vision" speculated that there will be two major effects of this new law. This regulation may create a black market for foreign currency transfers and it may weaken the Sudanese pound against the dollar. While analysts have stated that this is an attempt to end capital flight, Badr Addin Abbas, the Deputy Governor of the Central Bank of Sudan, rejected the relationship between the U.S. sanctions and this decision, stating, "The new policy is more regulation - more discipline for the market."

¶7. (U) In an interview with EconOff, prominent Sudanese Businessman, Abdallah Bakheet, noted that these new regulations may harm his plastic manufacturing, refrigeration, and general trading companies, stating "I'm negatively affected by both the U.S. sanctions and the government of Sudan's response to it."

¶8. (U) COMMENT: Prior to the announcement of tightened U.S. sanctions, the GNU had already announced measures to make up for its budget shortfalls. The budget of the GNU is highly dependent on

oil, which provides over 80% of all revenues. In the 2006 and 2007 budgets, the GNU overestimated first the price per barrel and later the overall production of oil. These shortfalls in revenue have forced the government to scramble for funds. On May 20, the GNU announced an increase in the value added tax from 10 to 12 per cent.

The budget shortfall, along with the tightened U.S. sanctions, may force Sudan to continue to restructure its assets, seek further foreign direct investment from China, Malaysia, India, and the Arabian Gulf states, and reorganize government expenditures.

¶9. (U) Comment continued: The two decisions described above, made within twenty four hours of the announcement of U.S. sanctions, indicate that the GNU is quickly attempting to prevent damage to its already fragile economy. The selling of GNU assets in Sudatel may be considered a move to "cash out" before Sudatel suffers the effects of U.S. sanctions. Likewise, the amendment to foreign currency policy signals that the GNU is taking steps to prevent capital flight from Sudan. END COMMENT.

FERNANDEZ